UNCOMMON SENSE, COMMON NONSENSE

Why some organisations consistently outperform others

Jules Goddard and Tony Eccles
Preface to the second edition  xi
Introduction  1

PART 1  Winners and losers  9

Firms outperform their competitors by aiming to be different, not better  11
Winning is a singularity, whereas losing conforms to a pattern  15
Losers look to competitive benchmarks rather than their own imagination for their model of success  18
Losers define strategy as cost competitiveness and seek efficiency through cost reduction  21
Success is best measured by added value, not profit  24
The best benchmark is the competition, not the plan  27
Winners are motivated more by meeting a need than a target  30
The difference between winners and losers is less their aims and more their methods  32
The greatest threats to corporate performance are internal, not external  35
It is better to be first than it is to be better  38
Losers are typified by the “catch up” strategy of “a better product at a lower price”  41
Incompetence explains performance differences better than competence  43
Markets are self-structured to produce few winners and a long tail of losers • 47
Success is its own multiplier • 50
Most marketing efforts serve only to reinforce the status quo • 53

PART 2  Strategy and tactics • 55

A strategy is not a plan of attack but an idea under study • 57
The measure of a strategy is not its ambition but its truth • 60
The greatest barriers to competition are not structural or economic, but personal or cognitive • 62
Wealth-creating actions are driven more by curiosity than by targets • 64
Effective strategy is as likely to flow from action as to lead to action • 66
Strategy belongs more naturally to the crowd than to the professional • 68
The true strategist resembles an experimental scientist rather than a clairvoyant planner • 70
There cannot be a method of strategy just as there cannot be a method of science • 73
Plans deliver greater value if they are propositions to be tested rather than commitments to be met • 75
Strategic breakthroughs are more likely to arise from adhocracy than a formal planning process • 79
Our understanding of strategy owes more to capital markets than to product markets • 84
Most discoveries in business are the result of accident rather than design • 88
Creative people give themselves more time to solve problems • 91
An organisation’s “bullshit quotient” is directly proportional to its disregard for the truth • 94
Strategy is more dependent on courage and humility than talent and charisma • 97
Competition compensates for its own wastefulness by the pace of innovation that it spawns • 99
PART 3  Organisation and management  ⚫ 103

The horns of the managerial dilemma are the need to be in control and the need to be continuously learning  ⚫ 107
The primary role of management is to motivate employees and to co-ordinate their activities  ⚫ 111
Six operating principles underpin the managerial model of most organisations  ⚫ 114
The dark side of the standard model of management is increasingly constraining performance  ⚫ 117
Six global forces are reducing the need for management  ⚫ 121
The internet is disintermediating management  ⚫ 124
The double bind is the defining condition of organisational man  ⚫ 126
Paranoia is the dominant mood of management  ⚫ 129
The need for extraordinary management suggests a poorly designed organisation  ⚫ 132
Managers need to better exploit the benefits of heterarchy  ⚫ 135
Catalytic mechanisms point the way forward  ⚫ 137
Everything important happens “at the edge of chaos”  ⚫ 140
Companies underestimate the power of intrinsic motivation  ⚫ 142
Tapping the collective intelligence of the organisation creates value  ⚫ 144
The smallest changes – if well chosen – can have the biggest effects  ⚫ 148
The spectre of bankruptcy serves to tame “animal spirits” more effectively than the restraints of the regulator  ⚫ 150
Morality is not possible without the freedom afforded by the market  ⚫ 153

PART 4  Biases and remedies  ⚫ 157

New problems call for new methods  ⚫ 159
The logic of business decision-making should emulate the logic of scientific discovery  ⚫ 162
Statements of corporate values trivialise ethics and demean employees  ⚫ 165
Change programmes deliver greater change when focused on weakness of will rather than clarity of intent @ 168
Business is increasingly equated with being busy @ 171
There are greater returns on simplicity than on scale @ 173
Progress results from wise insights rather than great designs @ 175
Many strategic decisions would be better made by a plebiscite than by an elite @ 177
Firms underestimate the collective wisdom of their employees @ 179
Firms would benefit from becoming more open societies @ 182
Most of the important things are happening at the periphery @ 184
A sense of fairness is what holds an organisation together @ 187
The pace of progress would be accelerated by greater corporate disclosure @ 189
Visualising the connection between decisions and outcomes enhances the quality of management @ 191
All progress emanates from the freedom to make mistakes in the pursuit of organisational learning @ 194
Conversations, rather than meetings, are the units of organisational effectiveness @ 197
Good conversation is founded upon good manners @ 199
Listening without judging enables organisational learning @ 201
Learning how to learn more effectively is the challenge of our times @ 204

PART 5 Applications and examples @ 207
The challenge of Discovery @ 211
The future and strength of the Discovery process @ 214
The subversive nature of the Discovery process @ 217
The Discovery process depends on an open agenda @ 219
The important flavour of unpredictability and ambiguity @ 223
Emotional engagement is crucial @ 234

Final words @ 237
Acknowledgements @ 239
Introduction

“Both the ideas that science generates and the way in which science is carried out are entirely counter-intuitive and against common sense.”

Lewis Wolpert

THIS IS A BOOK on corporate performance and organisational capability. It puts forward a new explanation for why some companies consistently outperform their rivals; it suggests that beliefs and assumptions rather than goals or values separate winners from losers; it argues that the model of management that prevails in most organisations is both antiquated and harmful; and it proposes a radically different method for how to lead and drive the work of an organisation effectively. It integrates a theory of corporate success with a model of strategic thinking and a method of operational effectiveness.

It is not a textbook. It is more like a handbook of innovative ideas and contrarian perspectives. It challenges the fashion for panaceas, formulae and notions of best practice, and it reflects a view that most business strategies are generic and banal, and most management theories are little more than sophistry or folk wisdom. It seeks to clear away the undergrowth that has made management and strategy far more difficult than they need to be. In a sense, it represents a return to core principles by setting out to reformulate an integrated model of the effective business.
In this endeavour, we seek to engage the creativity of the reader. Some of the arguments of the book are grounded in recent economic and psychological research, but most of them are the fruit of working closely with executive teams attending management-development programmes at London Business School, INSEAD and elsewhere over the past 25 years. These workshops are hugely revealing of the joys and sorrows of modern managers and the problems they face. This book was written with these managers in mind.

Our approach to competitive strategy derives from a return to economic fundamentals – and, in particular, to the basic law of wealth creation. This is the principle of asymmetric knowledge – that is, any situation when somebody in a market knows something that nobody else in the market knows, and then has the courage to act on that knowledge. We call this type of knowledge “uncommon sense”. When such knowledge is acted upon illegally, it is called “insider trading”. But when acted upon lawfully, it is called “entrepreneurship”. Of course, not just any knowledge will do. It has to be knowledge that can be utilised and packaged in ways that create unique value for buyers. These are the conditions that define the moment of truth that we call “strategic discovery”.

In the absence of knowledge asymmetries – and the acts of entrepreneurial courage that turn inert knowledge into incremental wealth – markets would lose their potency. As P.J. O’Rourke, an American satirist, observed:

If everybody believed what everybody else believed, everybody would set the same price on everything. The middle-aged men on the stock exchange floor could quit hollering and go have lunch.

Markets are battles between belief systems. The winners are those whose beliefs are more grounded in “truth”. The beneficiaries are the entrepreneurs and their customers who capture the value embedded in this new knowledge. Market competition is an exploratory process that rewards those who make such discoveries.
As humans we are all fallible. Misconceptions, illusions, blind spots and false beliefs are part of the human condition. When the same sources of error unite all the competitors in a given space, they become what we call “common nonsense”. An important aspect of strategy for the individual firm is the skill of identifying such nonsense and discarding it.

Adopting the perspective of a particular firm (“us”) competing against other firms (“them”), we can, at the risk of oversimplification, summarise our main argument as follows.

1. As competitors, we differ from each other, knowingly or tacitly, in the beliefs that drive our respective decisions and actions

   ![Diagram](image1)

2. Because we inhabit the same reality, most of these beliefs will be shared between us and our competitors

   ![Diagram](image2)
3. Only those beliefs that differentiate us and our competitors, including those beliefs that underpin the skills of implementation, can explain differences of performance between us.

![Diagram showing uncommon beliefs and their uncommon beliefs.](image)

4. Winning strategies are based on belief systems that are closer to the truth than those of losing strategies.

![Diagram showing truths and falsehoods.](image)

5. Beliefs that we and our competitors share, whether true or false, cannot be the cause of differential performance between us.